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PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

ANNUAL REPORT 1967

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PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Directors and Officers

GORDON R. GILLIES, *President*

J. H. RATCLIFFE, C.B.E., *Vice-President*

GORDON M. GRAHAM

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE, *91 Gould Street, Toronto 2, Ontario*

ROTOGRAVURE DIVISION, *1150 Islington Ave. North, Rexdale, Ontario*

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Financial Highlights

EARNINGS	1967	*1966*
Sales	$5,960,022	*$5,323,927*
Provision for depreciation	327,032	*305,789*
Income taxes	282,500	*247,500*
Net earnings	282,140	*254,270*
Net earnings per share	1.61	*1.55*
Dividends paid	140,000	*131,472*
Dividends paid per share	.80	*.80*
BALANCE SHEET		
Working capital	$ 244,788	*$ 764,131*
Capital expenditures on machinery and equipment	1,179,882	*538,817*
Shareholders' equity	3,206,091	*2,920,041*
Shareholders' equity—per share	18.32	*17.77*

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Directors' Report to the Shareholders

Your directors submit with pleasure the annual report of the Company for the fiscal year ended December 31, 1967, together with the financial statements and the auditors' report thereon.

SALES AND EARNINGS In 1967, sales amounted to $5,960,022 an increase of $636,095 or 11.9% over 1966. After meeting all charges, including a provision of $327,032 for depreciation of plant and equipment, and a provision of $282,500 for income taxes, there remained earnings of $282,140 or $1.61 per share compared with $254,270 or $1.55 per share for the previous year. Earnings for the year under review were the highest in the Company's history.

DIVIDENDS Dividends of 40 cents per share were paid March 1, 1967, and September 1, 1967, making a total distribution to shareholders of 80 cents per share or $140,000.

WORKING CAPITAL Working capital at December 31, 1967 amounted to $244,788 as compared with $764,131 at the end of 1966. Details of the $519,343 decrease are shown in the Statement of Source and Application of Funds.

REDEMPTION OF BONDS During the year, the Company redeemed $250,000 of its 5¼ % first mortgage sinking fund bonds leaving a balance outstanding as at December 31, 1967 of $250,000 of the original issue of $3,500,000. The entire issue will be redeemed upon payment of the final instalment in 1968.

EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1967, earnings employed in the business amounted to $2,424,587 compared to $2,282,447 last year.

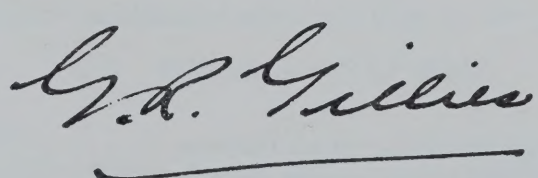
SHAREHOLDERS' EQUITY Total shareholders' equity amounted to $3,206,091 equal to $18.32 per share, compared with $2,920,041 or $17.77 per share a year ago.

PLANT EXPANSION AND FINANCING ARRANGEMENTS As previously reported to the shareholders, the manufacture of additional printing, binding and ancillary equipment is proceeding according to schedule and should be in operation by early 1969, thereby enabling the Company to almost double existing printing capacity.

As detailed in the notes to the financial statements, during the year ended December 31, 1967, $1,179,882 was expended on machinery and equipment including progress payments on equipment under manufacture. After due consideration of a number of alternatives, arrangements have been made with the Company's Banker under which up to $3,750,000 may be borrowed to assist in financing the foregoing expansion programme.

Your directors extend sincere appreciation to all employees who through their loyalty and efficiency throughout the year contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,



Toronto, Canada,
January 30, 1968.

President.

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ASSETS

	1967	*1966*
CURRENT:		
Cash	$ 58,106	*$ 83,057*
Investments at cost, market values 1967—$142,000; 1966—$427,000 (note 1)	143,625	*433,285*
Accounts receivable	133,064	*171,485*
Note receivable	85,800	*85,800*
Portion of notes due within one year under Employees' Stock Purchase Agreements (note 3)	14,391	
Inventories of work-in-process and materials at cost, less progress payments	466,465	*444,518*
Prepaid expenses	4,612	*11,645*
TOTAL CURRENT ASSETS	906,063	*1,229,790*
CAPITAL—at cost:		
Land	57,486	*57,486*
Buildings	1,940,872	*1,925,336*
Machinery and equipment	4,681,331	*4,552,369*
	6,679,689	*6,535,191*
Less accumulated depreciation	3,385,976	*3,132,126*
	3,293,713	*3,403,065*
Progress payments on equipment under manufacture (note 2)	962,202	
NET CAPITAL ASSETS	4,255,915	*3,403,065*
OTHER:		
Notes due under Employees' Stock Purchase Agreements—non current portion (note 3)	115,128	
Note receivable		*85,800*
Special refundable tax	25,260	*17,045*
TOTAL OTHER ASSETS	140,388	*102,845*
	$5,302,366	*$4,735,700*

On behalf of the Board:

G. R. GILLIES
J. H. RATCLIFFE
} *Directors*

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t December 31, 1966)

LIABILITIES

	1967	*1966*
CURRENT:		
Accounts payable and accrued charges	$ 319,217	*$ 331,141*
Estimated income and other taxes payable	342,058	*134,518*
	661,275	*465,659*
5¼ % FIRST MORTGAGE SINKING FUND BONDS:		
Series "A" maturing December 15, 1968	3,500,000	*3,500,000*
Less total redeemed to date	3,250,000	*3,000,000*
Balance outstanding (including $250,000 of sinking fund instalment due December 15, 1968)	250,000	*500,000*
TERM BANK LOAN (note 2)	255,000	
DEFERRED INCOME TAXES	930,000	*850,000*
TOTAL LIABILITIES	2,096,275	*1,815,659*
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized: 250,000 shares, no par value		
Issued: 175,000 shares (1966—164,340) (note 4)	781,504	*637,594*
Earnings employed in the business	2,424,587	*2,282,447*
TOTAL SHAREHOLDERS' EQUITY	3,206,091	*2,920,041*
	$5,302,366	*$4,735,700*

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Statement of Earnings and Earnings Employed in the Business

For the Year ended December 31, 1967

(with comparative figures for the year 1966)

	1967	*1966*
SALES	$5,960,022	*$5,323,927*
COST OF SALES and all expenses, except the following items:	5,022,738	*4,456,873*
Provision for depreciation	327,032	*305,789*
Directors' remuneration (note 6)	41,000	*56,060*
Bond interest expense	25,675	*38,800*
Interest income	(21,063)	*(35,365)*
	5,395,382	*4,822,157*
EARNINGS BEFORE PROVISION FOR INCOME TAXES	564,640	*501,770*
Provision for income taxes including deferred portion of $80,000 (1966—$240,000)	282,500	*247,500*
NET EARNINGS FOR YEAR	282,140	*254,270*
Less dividends paid	140,000	*131,472*
BALANCE OF YEAR'S EARNINGS	142,140	*122,798*
EARNINGS EMPLOYED IN BUSINESS AT BEGINNING OF YEAR	2,282,447	*1,987,710*
Excess of proceeds over cost of expropriated land and sundry gains		*171,939*
EARNINGS EMPLOYED IN BUSINESS AT END OF YEAR	$2,424,587	*$2,282,447*

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Statement of Source and Application of Funds

For the Year ended December 31, 1967
(with comparative figures for the year 1966)

	1967	*1966*
SOURCE OF FUNDS:		
Net profit for year	$ 282,140	*$ 254,270*
Charges not involving a current outlay of funds—		
Depreciation	327,032	*305,789*
Deferred income taxes	80,000	*240,000*
FUNDS FROM OPERATIONS	689,172	*800,059*
Term bank loan	255,000	
Excess of proceeds over cost of expropriated land and sundry gains		*171,939*
Payment on note receivable	85,800	*85,800*
Sale of shares under Employees' Stock Purchase Agreements	143,910	
	1,173,882	*1,057,798*
APPLICATION OF FUNDS:		
Expenditures for machinery and equipment including progress payments on equipment under manufacture	1,179,882	*538,817*
Reduction in funded indebtedness	250,000	*250,000*
Dividends paid to shareholders	140,000	*131,472*
Increase in non current notes due under Employees' Stock Purchase Agreements	115,128	
Special refundable tax	8,215	*17,045*
	1,693,225	*937,334*
INCREASE (DECREASE) IN WORKING CAPITAL	(519,343)	*120,464*
WORKING CAPITAL, BEGINNING OF YEAR	764,131	*643,667*
WORKING CAPITAL, END OF YEAR (before provision for $250,000 of sinking fund bonds due December 15 of ensuing year)	$ 244,788	*$764,131*

See accompanying notes to financial statements

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Notes to Financial Statements

December 31, 1967

1. INVESTMENTS

Investments consist of government guaranteed bonds.

2. MACHINERY AND EQUIPMENT, INCLUDING EQUIPMENT UNDER MANUFACTURE AND FINANCING THEREOF

During the year ended December 31, 1967, $1,179,882 was expended on additions to machinery and equipment of which approximately $1,078,700 (including $962,202 of progress payments for equipment under manufacture) had been expended out of a total authorized of $3,800,000 in respect of additional press and ancillary equipment. These expenditures are to be financed, to the extent of approximately $3,000,000, by means of a term bank loan carrying interest at 8% per annum and repayable over a five-year period commencing in 1969, with the balance to be made available to the Company by the bank on a revolving credit basis at a lower rate of interest.

3. NOTES DUE UNDER EMPLOYEES' STOCK PURCHASE AGREEMENTS

These represent the amounts due under promissory notes made by a salaried director and senior management in favour of the Company in 1967 in connection with the purchase of shares of the Company under the Company's stock purchase plan (see note 4). These promissory notes are payable in ten equal annual instalments.

4. CAPITAL STOCK

In January 1967, 10,660 shares of the Company's capital stock were issued to a salaried director and senior management under the Company's stock purchase plan at the then current market price of $13.50 per share, for a total consideration of $143,910, in respect of which the promissory notes referred to in note 3 were received.

5. PENSION PLANS

The majority of the Company's employees are covered by either the Canada Pension Plan and/or various union or Company administered retirement plans. The amount charged to income (including amounts paid to government pension plans) was $74,700 in 1967 and $69,400 in 1966 which amounts included amortization of prior service costs. The unfunded past service pension costs at December 31, 1967 were approximately $162,500 and these will be charged to operations over the next thirteen years.

6. DIRECTORS' REMUNERATION

Remuneration paid to the Company's directors includes amounts paid to directors holding salaried employment. Direct remuneration of directors and senior officers, as defined under The Securities Act, 1966 of Ontario, amounted to $128,500 in 1967 and $120,700 in 1966.

Auditors' Report

To the Shareholders of Photo Engravers & Electrotypers Limited:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1967 and the statements of earnings, earnings employed in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 12, 1968.

CLARKSON, GORDON & CO.
Chartered Accountants

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Ten Years' Review

Earnings

Year	Operating Profit	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1958	$770,466	$240,394	$455,864	$230,364	$1.42	$ .55
1959	817,626	247,627	488,535	235,535	1.45	.70
1960	740,768	253,825	404,227	201,227	1.24	.80
1961	793,656	253,605	455,619	224,119	1.37	.80
1962	753,768	251,739	417,956	208,956	1.28	.80
1963	818,578	256,456	486,993	240,493	1.46	.80
1964	773,405	253,368	457,148	227,148	1.38	.80
1965	769,406	242,090	433,793	220,093	1.34	.80
1966	867,054	305,789	501,770	254,270	1.55	.80
1967	937,284	327,032	564,640	282,140	1.61	.80

Balance Sheet

Year	Working Capital	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Funded Long Term Debt	Share-holders' Equity	Share-holders' Equity Per Share
1958	$1,405,074	$5,086,345	$3,404,461	$2,481,000	$1,988,037	$12.29
1959	1,244,282	5,219,895	3,301,208	2,019,000	2,133,118	13.14
1960	1,274,845	5,441,294	3,202,818	2,000,000	2,057,995	12.63
1961	1,335,917	5,502,145	3,026,119	1,750,000	2,180,052	13.34
1962	1,357,477	5,560,655	2,837,513	1,500,000	2,264,759	13.82
1963	1,336,540	5,689,024	2,719,722	1,250,000	2,382,778	14.50
1964	922,983	5,329,854	2,735,802	1,000,000	2,496,185	15.19
1965	643,667	5,999,022	3,170,037	750,000	2,625,304	15.97
1966	764,131	6,535,191	3,403,065	500,000	2,920,041	17.77
1967	244,788	7,641,891	4,255,915	250,000	3,206,091	18.32